

Nova Scotia Municipal Finance Corporation

23rd Annual Report
2003



Nova Scotia

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Nova Scotia

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How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989.

Purpose and Mission

The Corporation's purpose is to provide financing of the capital requirements of municipalities, school boards, and hospitals by issuing its securities and relending the funds for these purposes. However, currently most school and hospital construction debt is financed directly by the Province of Nova Scotia.

All municipalities and school boards must finance, and hospitals may finance, their capital requirements through the Corporation, except for capital projects funded directly by the Province of Nova Scotia, interim financing, and certain projects for which funds may be borrowed from the Government of Canada, the Province, or other municipalities within the province.

The Corporation's mission is to utilize credit enhancement and debt pooling techniques to meet clients' approved funding requirements at the lowest possible cost.

Administration

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor-in-Council. Forty per cent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Service Nova Scotia and Municipal Relations may be cost-shared by the Province in such proportion as the Governor-in-Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by the Corporation and/or the borrowing units.

Support staff and resources of the provincial Departments of Finance, Justice, and Service Nova Scotia and Municipal Relations have been provided to the Corporation.

Office location:

Maritime Centre, 14th Floor North
1505 Barrington Street
Halifax, Nova Scotia B3J 1S2

Mailing address:

P.O. Box 850, Station "M"
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590

Fax: (902) 424-0525

Website: <http://www.gov.ns.ca/nsmfcl/>

Directors and Officers *(as at March 31, 2003)*

Directors of the Corporation

Brian Stonehouse, PEng, Chair
Deputy Minister
Department of Transportation and Public Works

Bruce Hetherington
Councillor
Halifax Regional Municipality

Kevin Malloy, CA
Controller
Department of Finance

James E. Radford, MBA, CA,
Business Consultant, Martins Point, Nova Scotia

Richard G. Ramsay, MPA
Business Consultant, Berwick, Nova Scotia

Officers of the Corporation

Chair
Brian Stonehouse, PEng
Deputy Minister
Department of Transportation and Public Works

Chief Executive Officer and Treasurer
R. Mark Gilbert, MBA, PhD

Corporate Secretary
Bob Houlihan, CGA
Municipal Advisor
Department of Service Nova Scotia
and Municipal Relations

General Counsel
John Traves
Solicitor
Department of Justice

Assistant Treasurer
Roy Spence,
Director, Liability Management and Treasury
Services
Department of Finance

Business Plan

The Corporation's Board of Directors approved a business plan for the 2002–03 fiscal year.

The plan reaffirms our mission statement which is “to utilize credit enhancement and debt-pooling techniques to meet clients’ approved funding requirements at the lowest possible cost.” This is achieved through the issuance of debentures. The Corporation pools municipal borrowing requirements, which eliminates the need for individual municipalities to negotiate and administer their own debenture issues. Under the Municipal Finance Corporation model, the debt issuance function remains in the public sector domain.

The business plan features four strategic goals, which are identified below. The outcomes, indicators, measures, and results are included.

Strategic Goal 1

To work with clients, the Province, and the investment community to provide capital financing to our clients at the lowest cost of funds available for their particular debt structure and timing needs.

Outcome:

Meeting approved client financing requirements

Indicator:

Response to approved requests for financing

Measures:

- (1) percentage of formal requests complied with through the debenture-issue immediately following the request and
- (2) average response time to formal requests—measured in weeks

Results

- Responded to all client requests in a timely fashion by pricing issues within 4 to 6 weeks of formal municipal requests. This represents an improvement over the 6 to 9 week period experienced in the previous fiscal period.

Additional results:

- Issued \$95,624,000 in debentures and on-loaned a similar amount to clients.
- Administered \$3,635,000 in short-term financing pending issuance of a debenture.
- Administered \$482 million in outstanding debentures which included the payment of debenture interest.
- Administered \$482 million in outstanding loans to municipalities, school boards, and hospitals.
- Invested and administered pooled sinking fund trusts valued at \$23 million.

Strategic Goal 2

To explore and develop new methods and products for meeting the needs of our clients through contact with the investment community, the public sector, and academic research.

Outcome:

Awareness of new loan features that may benefit clients

Indicator:

Amount of communication with clients, investment community, academics, and public sector counterparts

Measure:

Per cent of potential borrowers contacted

Results:

Conducted 20 field visits (30 per cent of municipal units and other active clients) during the year.

Additional results:

- Continued with attempts to implement the MFC/interdepartmental/municipal committee recommendation to develop a funding source for a pooled lease financing program for Nova Scotia municipalities.
- Developed a bridge financing program for municipalities participating in federal / provincial infrastructure programs where cost sharing covers more than one fiscal period.
- Participated on the municipal borrowing process review committee established by the Province's Service Nova Scotia and Municipal Relations Department.

- Provided advice on financing options for a large municipal capital project.
- Attended meetings with FCM Green Fund officials to discuss the appropriate process and structure for using MFC as the conduit for these low-cost infrastructure funds.
- Worked with Service Nova Scotia and Municipal Relations Department to provide guidance and advice to municipalities developing and reviewing their investment policies.
- Added health authorities to its client base at the request of the Minister of Health.
- Held meetings with the Corporation's lead managers and other members of the investment community, staff of the NS Department of Finance, and other municipal finance corporations, to discuss trends and developments in municipal capital financing.
- Improved the NSMFC website.

Outcome:

Optimum use of capital funds and improved community infrastructure

Indicator:

Information on capital planning and finance

Measure:

Percent of borrowers with a capital budgeting, planning and financing strategy

Results:

75 per cent of municipal borrowers had prepared capital budgets.

Additional results

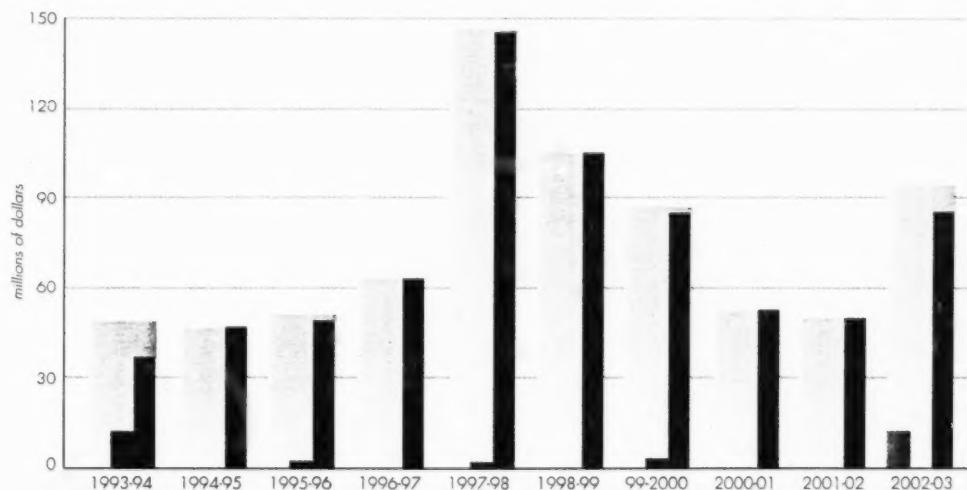
- Conducted 20 field visits during the year.
- Worked with staff of the Service Nova Scotia and Municipal Relations and/or municipal staff to develop responses to municipal capital financing proposals.
- Responded to the information needs of municipalities and the investment community.

Strategic Goal 3

To promote responsible and professional approaches to municipal capital project planning and financing (jointly with the department of Service Nova Scotia and Municipal Relations)

Long Term Loans Made During Year

*as at March 31



Hospital	—	—	—	—	—	—	—	—	—	11.0
School Board	11.9	—	2.1	—	1.4	—	2.5	—	—	—
Municipal	36.7	46.9	49.0	62.9	145.4	105.1	84.5	52.4	49.9	84.6
Total	48.6	46.9	51.1	62.9	146.8	105.1	87.0	52.4	49.9	95.6

Note: The amount of debentures issued during the year approximates the long-term loans made.

- Provided advice on financing options for a large municipal capital project.
- Attended meetings with FCM Green Fund officials to discuss the appropriate process and structure for using MFC as the conduit for these low-cost infrastructure funds.
- Worked with Service Nova Scotia and Municipal Relations Department to provide guidance and advice to municipalities developing and reviewing their investment policies.
- Added health authorities to its client base at the request of the Minister of Health.
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- Improved the NSMFC website.

To promote responsible and professional approaches to municipal capital project planning and financing (jointly with the department of Service Nova Scotia and Municipal Relations)

Outcome:

Optimum use of capital funds and improved community infrastructure

Indicator:

Information on capital planning and finance

Measure:

Percent of borrowers with a capital budgeting, planning and financing strategy

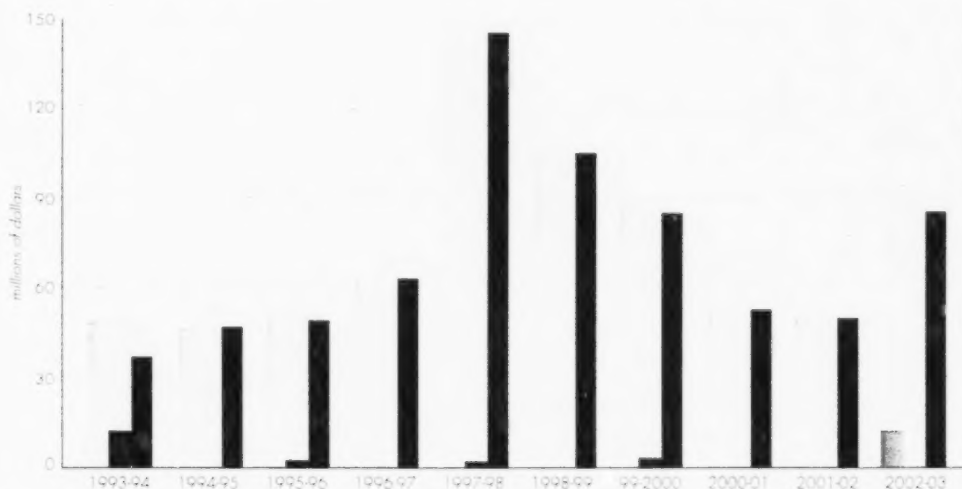
Results:

75 per cent of municipal borrowers had prepared capital budgets.

Additional results

- Conducted 20 field visits during the year.
- Worked with staff of the Service Nova Scotia and Municipal Relations and/or municipal staff to develop responses to municipal capital financing proposals.
- Responded to the information needs of municipalities and the investment community.

*as at March 31



Fiscal Year	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	99-2000	2000-01	2001-02	2002-03
School Board	11.9	—	2.1	—	1.4	—	2.5	—	—	—
Municipal	36.7	46.9	49.0	62.9	145.4	105.1	84.5	52.4	49.9	84.6
Total	48.6	46.9	51.1	62.9	146.8	105.1	87.0	52.4	49.9	95.6

Note: The amount of debentures issued during the year approximates the long-term loans made.

Strategic Goal 4

To prudently manage all financial aspects of the Corporation, including credit risk and asset/liability management.

Outcome:

Matching of assets and liabilities

Indicator:

Information on a MFC pooled debenture issues and loans to municipal clients

Measure:

Similarity of aggregate amounts, terms, and timing of debentures and loans

Results:

Matched the amount, term, and timing of MFC debentures and loans to units.

Additional results:

- Verified credit worthiness of loan applicants with Service Nova Scotia and Municipal Relations before setting the parameters for pooled issues.

Loans to Municipal Units, Municipal Enterprises, Hospitals and Health Authorities

The Corporation's loan portfolio comprises loans to school boards and hospitals that are serviced by the Province of Nova Scotia, loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, and loans to health authorities guaranteed by the Province. There are no arrears. The Nova Scotia Department of Service Nova Scotia and Municipal Relations performs the credit check using

ministerially approved debt policy guidelines, and the Minister approves all capital loans to municipal units and enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

Schedule of New Loans by Purpose (By Jurisdiction)

Purpose	Regionals	Towns	Rural Municipalities	Municipal Enterprises	Hospitals & Health	Totals	
						Amount	%
Water	\$ 5,000,000	\$ 1,565,100	\$ 90,000	\$ 5,900,000	\$ 0	\$ 12,555,100	13.1
Sewer	1,387,886	883,000	822,170	0	0	3,093,056	3.2
Streets	27,783,084	1,400,400	1,059,000	0	0	30,242,484	31.7
Buildings	5,405,579	1,385,200	165,000	0	0	6,955,779	7.3
Land	3,589,468	0	227,000	0	0	3,816,468	4.0
Equipment	2,807,544	344,300	0	1,292,500	0	4,444,344	4.6
Recreation	1,026,286	152,800	3,246,000	0	0	4,425,086	4.6
Solid Waste	16,250,453	358,500	808,500	0	0	17,417,453	18.2
Sewage Treatment	0	90,000	820,000	0	0	910,000	1.0
Transit	764,052	0	0	0	0	764,052	0.8
Parking	0	0	0	0	11,000,000	11,000,000	11.5
General	0	0	0	0	0	0	
Totals	\$ 64,014,352	\$ 6,179,300	\$ 7,237,670	\$ 7,192,500	\$ 11,000,000	\$ 95,623,822	
Percentage	66.94%	6.46%	7.57%	7.52%	11.50%	100.00%	

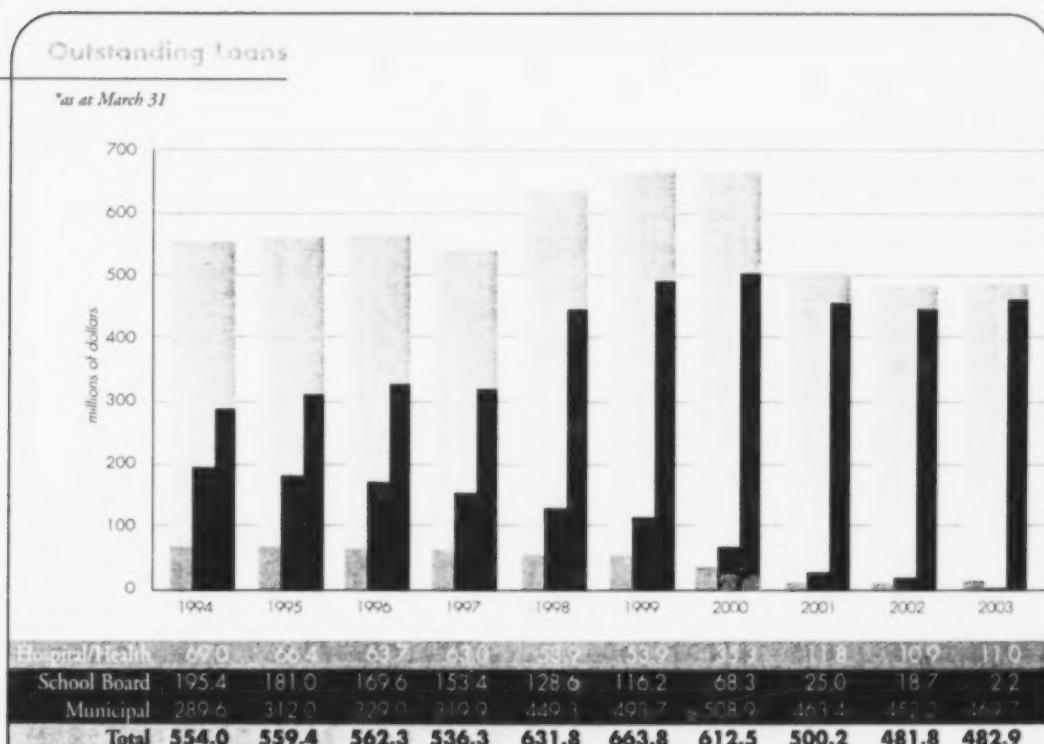
During the year, 36 long-term loans totalling \$95,623,822 were made to 31 municipal units, municipal enterprises, and health authorities. They were used for the purposes as shown.

Interim loans of \$215,000 were made during the year to two municipal enterprises. These loans will be repaid from the proceeds of long-term loans made as part of the pooled debenture issue in the spring of 2003.

The accumulated loans outstanding at March 31, 2003, amount to \$ 482.9 million, comprising \$469.7 million to 69 municipal units and enterprises, \$2.2 million to 14 school boards, and \$11.0 million to one health authority. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following chart shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Outstanding Borrowing Program

unds totalling \$95.6 million for the loans for municipal and school purposes were raised through three issues in the Canadian domestic market. These issues were placed privately with the Province of Nova Scotia, which purchased a \$52.9 million issue in May 2002, a \$31.7 million issue in November 2002, and an \$11 million issue in January 2003. Interest rate coupons ranged from 3.125 per cent to 6.25 per cent.

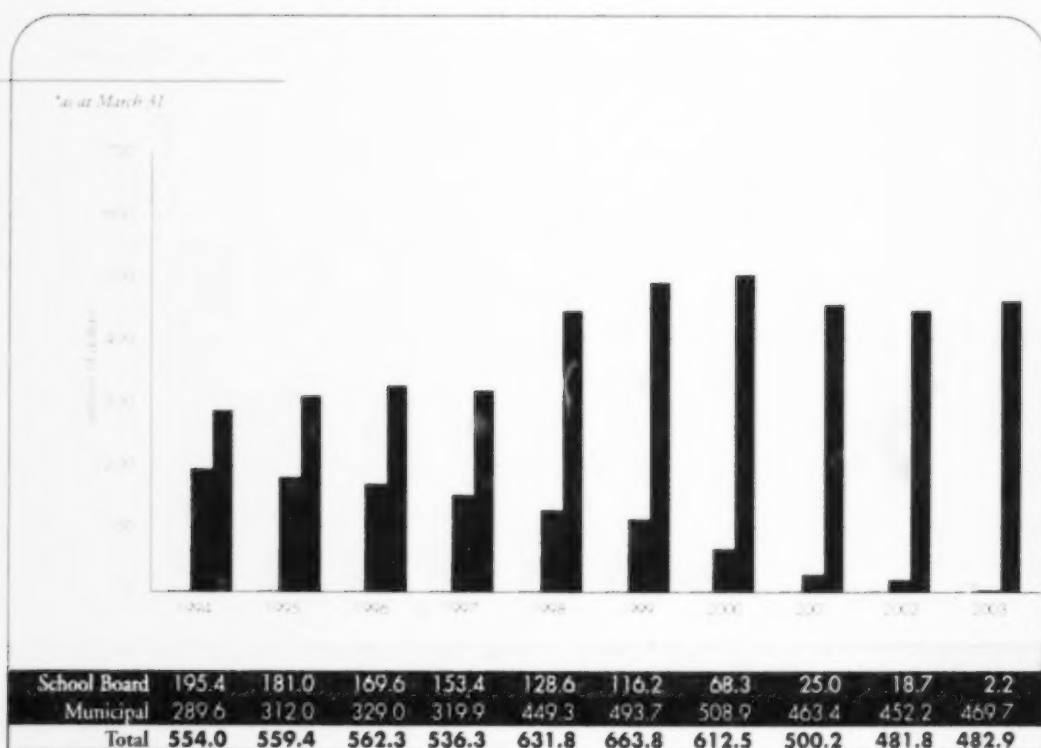


Note: The amount of debentures outstanding at the end of each year approximates the loans.

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Note: The amount of debentures outstanding at the end of each year approximates the loans.

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/02	New Loans	Principal Repaid	Principal March 31/03
Regionals:				
Halifax RM	\$ 243,514,556	\$ 36,817,000	\$ (41,036,183)	\$ 239,295,373
Cape Breton RM	19,612,764	26,500,000	(4,757,491)	41,355,273
Queens RM	3,498,599	697,352	(431,861)	3,764,090
Total Regionals	266,625,919	64,014,352	(46,225,535)	284,414,736
Province of Nova Scotia	29,605,681	11,000,000	(27,414,511)	13,191,170
Towns:				
Amherst	3,902,962	458,000	(876,527)	3,484,435
Annapolis Royal	785,164	0	(84,217)	700,947
Antigonish	965,018	0	(94,000)	871,018
Berwick	1,538,617	319,800	(192,649)	1,665,768
Bridgetown	386,409	0	(38,576)	347,833
Bridgewater	4,224,678	0	(452,711)	3,771,967
Canso	955,778	0	(27,140)	928,638
Clark's Harbour	52,400	0	(13,100)	39,300
Digby	792,840	134,000	(106,880)	819,960
Hantsport	230,480	84,000	(35,530)	278,950
Kentville	4,993,406	1,498,200	(574,534)	5,917,072
Lockeport	0	90,000	0	90,000
Lunenburg	843,050	0	(181,350)	661,700
Mahone Bay	739,200	0	(209,700)	529,500
Middleton	1,053,510	0	(130,164)	923,346
Mulgrave	67,500	351,200	(7,500)	411,200
New Glasgow	6,039,992	133,100	(691,725)	5,481,367
Oxford	2,074,460	98,000	(154,176)	2,018,284
Parrsboro	86,860	0	(8,686)	78,174
Pictou	818,117	600,000	(77,007)	1,341,110
Port Hawkesbury	1,190,500	0	(79,750)	1,110,750
Shelburne	417,900	0	(29,850)	388,050
Springhill	1,284,800	0	(102,980)	1,181,820
Stellarton	809,375	0	(167,710)	641,665
Stewiacke	429,000	410,000	(26,750)	812,250
Trenton	357,545	100,000	(127,305)	330,240
Truro	1,600,000	0	(100,000)	1,500,000
Westville	1,364,745	0	(132,005)	1,232,740
Windsor	644,700	0	(103,100)	541,600
Wolfville	4,921,840	453,000	(457,458)	4,917,382
Yarmouth	4,110,866	1,450,000	(1,887,466)	3,673,400
Total Towns	\$47,681,711	\$6,179,300	\$ (7,170,546)	\$46,690,466

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/02	New Loans	Principal Repaid	Principal March 31/03
Rurals:				
Municipalities:				
Annapolis	\$ 5,573,354	0	(505,935)	5,067,419
Antigonish	1,315,000	400,000	(469,167)	1,245,833
Argyle	50,000	0	(25,000)	25,000
Barrington	1,391,432	0	(146,518)	1,244,914
Chester	2,022,335	474,670	(584,936)	1,912,069
Colchester	21,150,165	620,000	(2,953,167)	18,816,998
Cumberland	2,959,422	0	(1,359,629)	1,599,793
Guysborough	2,827,000	0	(96,000)	2,731,000
Hants East	1,844,638	1,607,000	(176,592)	3,275,046
Hants West	685,498	0	(76,167)	609,331
Inverness	1,230,000	0	(260,000)	970,000
Kings	9,591,091	435,000	(1,031,308)	8,994,784
Lunenburg	2,700,000	3,246,000	(180,000)	5,766,000
Pictou	3,332,733	0	(642,562)	2,690,171
Richmond	800,000	0	(80,000)	720,000
Shelburne	42,500	0	(8,500)	34,000
Victoria	2,143,000	0	(127,000)	2,016,000
Yarmouth	990,000	0	(67,500)	922,500
Villages:				
Baddeck	289,250	0	(17,000)	272,250
Chester	0	165,000	0	165,000
Kingston	341,169	200,000	(220,169)	321,000
Lawrencetown	138,750	0	(104,750)	34,000
New Minas	650,000	0	(175,000)	475,000
St. Peters	85,000	0	(5,000)	80,000
Port Williams	117,500	90,000	(28,500)	179,000
Westport	44,000	0	(5,500)	38,500
Total Municipalities & Villages (Rurals)	\$62,313,837	\$7,237,670	\$(9,345,900)	\$ 60,205,607
Municipal Enterprises:				
Braemore Home	\$ 153,562	0	\$ (51,177)	\$ 102,385
Bridgewater Public Service Commission	4,500,000	800,000	(250,000)	5,050,000
Digby Housing Corporation	706,000	0	(18,000)	688,000
Glen Haven Manor	1,084,000	0	(28,000)	1,056,000
Halifax Regional Water	66,291,500	5,100,000	(3,817,250)	67,574,250
Lunenburg Home	978,000	0	(15,000)	963,000
R.K. MacDonald Home	1,353,800	435,000	(160,892)	1,627,908
Seaview Manor	0	857,500	0	857,500
Villa Acadienne	505,100	0	(38,000)	467,100
Total Enterprises	\$ 75,571,962	\$ 7,192,500	\$ (4,378,319)	\$ 78,386,143
Total Loans	\$ 481,799,111	\$ 95,623,822	\$ (94,534,811)	\$482,888,122

Trust Funds under Administration

The Corporation administered sinking funds on behalf of borrowers. These sinking funds, which related to 20 individual loans totalling \$24.6 million, were applied to the repayment of these loans at the May 13, 2003, maturity date.

Following is a summary of the continuity of the balance of the sinking funds for the year:

Investments were purchased according to the Investment Policy of the Board of Directors and recorded in the financial statements at their amortized cost. Discounts and premiums on the purchase of securities were amortized over the remaining term to maturity. The investment policy includes guidelines for matching sinking fund assets and liabilities.

The average rate of return earned on the combined sinking funds was 5.13 per cent this fiscal year.

Acknowledgements

Mr. Douglas P. Stratton retired from the Board during the year. We wish to thank him for his contribution to the Corporation during his term and welcome Mr. Kevin Malloy, his successor, as our newest Director.

We acknowledge the administrative support and co-operation received from the Departments of Education, Finance, Justice, and Service Nova Scotia and Municipal Relations. Each of these departments has contributed the services of staff, which provides considerable assistance to the Corporation. The Directors wish to thank the staff of the Corporation for their excellent contribution.

Sinking Fund Assets

Cash and short-term investments	\$	0
Accrued interest		0
Investments, at amortized cost		0
	\$	<u>0</u>

Fund Continuity

Balance of sinking funds—April 1, 2002	\$ 23,715,763
Installments received	2,000,497
Income earned	143,393
Payout of matured loans	<u>(25,859,653)</u>
Balance of sinking funds—March 31, 2002	\$ <u>0</u>

Management's Responsibility for Financial Statements

The financial statements of Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared according to CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the annual report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, Grant Thornton LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented according to generally accepted accounting principles. The Auditors' Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

Provincial procurement policy requires that provincial crown corporations use a competitive bidding process for goods and services. The

Corporation's previous audit contract expired at the end of the 2001-02 fiscal year. A request for proposals for audit services for a five-year period beginning in the 2002-03 fiscal year was issued by the Corporation. Grant Thornton LLP's proposal was the most competitive and was accepted by the Board of Directors.

The financial statements and all information in the Annual Report have been approved by the Board of Directors. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Auditors' Report to the Directors

We have audited the balance sheet of Nova Scotia Municipal Finance Corporation as at March 31, 2003, and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Nova Scotia
April 25, 2003

Balance Sheet

March 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current Assets:		
Cash	\$ 129,883	\$ 59,386
Short term investments, at amortized cost (market - \$5,461,055; 2002 - \$4,485,000)	5,461,055	4,485,000
Accrued interest receivable	10,371,094	11,193,335
Other receivables	1,904	2,271
Principal due within one year on loans to units	63,054,835	94,534,811
	<u>79,018,771</u>	<u>110,274,803</u>
Long-term Assets:		
Loans to units (Note 3)	482,888,121	481,799,110
Less principal included in current assets	63,054,835	94,534,811
	<u>419,833,286</u>	<u>387,264,299</u>
Investments, at amortized cost (market - 2002 - \$540,096)	-	586,711
	<u>419,833,286</u>	<u>387,851,010</u>
Deferred Charges:		
Discount on debenture debt	2,562,324	2,600,982
Less accumulated amortization	1,592,606	1,643,729
	<u>969,718</u>	<u>957,253</u>
	<u>\$ 499,821,775</u>	<u>\$ 499,083,066</u>
Trust Fund Assets (Note 4)	<u>\$ -</u>	<u>\$ 23,715,763</u>

2003

2002

Liabilities and Equity**Current Liabilities:**

Accounts payable	\$ 47,199	\$ 66,105
Due to municipal units	1,175,055	-
Accrued interest payable	10,344,853	11,180,577
Principal due within one year on debenture debt	62,965,496	95,335,750
	<u>74,532,603</u>	<u>106,582,432</u>
Accrued public service awards (Note 9)	42,573	24,773

Long-term Debt

Debentures payable (Note 5)	482,460,750	482,172,500
Less principal included in current liabilities	62,965,496	95,335,750
	<u>419,495,254</u>	<u>386,836,750</u>

Deferred Credits

Discount on loans to units	2,557,525	2,591,283
Less accumulated amortization	1,593,637	1,635,701
	<u>963,888</u>	<u>955,582</u>

Equity

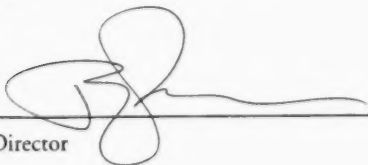
Reserve Fund	4,787,457	4,683,529
	<u>\$ 499,821,775</u>	<u>\$ 499,083,066</u>

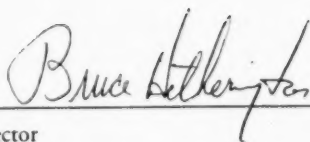
Trust Funds under Administration (Note 4)

	\$ -	\$ 23,715,763
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See accompanying notes to the financial statements.

Approved on behalf of the Board:


Director


Director

Statements of Revenue, Expenditure, and Reserve Fund

Year Ended March 31, 2003, with comparative figures for 2002

	2003	2002
Revenue		
Interest on loans to units	\$ 30,454,163	\$ 33,320,142
Amortization of discount on loans to units	250,185	237,849
Interest on short term investments	147,069	247,408
Current discount on loans to units	609,014	315,032
	<u>31,460,431</u>	<u>34,120,431</u>
Expenditure		
Interest on debenture debt and short term loans	30,442,061	33,372,259
Amortization of discount on debenture debt	252,257	251,604
Debenture issue expenses	373,221	198,942
Administrative expenses	288,964	272,392
	<u>31,356,503</u>	<u>34,095,197</u>
Net Revenue	103,928	25,234
Reserve Fund, Beginning of Year	<u>4,683,529</u>	<u>4,658,295</u>
Reserve Fund, End of Year	<u><u>\$ 4,787,457</u></u>	<u><u>\$ 4,683,529</u></u>

See accompanying notes to the financial statements.

Statement of Cash Flows

Year Ended March 31, 2003, with comparative figures for 2002

	2003	2002
Cash provided by (used for)		
Operations		
Net revenue	\$ 103,928	\$ 25,234
Add (deduct) items not involving cash		
Amortization of discount on loans to units	(250,185)	(237,849)
Amortization of discount on debenture debt	252,257	251,604
Amortization of premiums on investments	(22,140)	(45,124)
Change in non-cash working capital (Note 8)	(32,022)	26,325
Increase in accrued public service award	17,800	24,773
	<u>69,638</u>	<u>44,963</u>
Investments		
Issued loans of \$95,623,822 to units on security of debentures, net of discounts of \$258,491 (2002 - \$49,921,802 net of discounts of \$183,938)	(95,365,331)	(49,737,864)
Principal received on loans to units	94,534,811	68,328,704
Principal due to municipal units	1,175,055	-
Principal received on maturing investments	<u>608,851</u>	<u>231,963</u>
	<u>953,386</u>	<u>18,822,803</u>
Financing		
Issue of debentures of \$95,624,000, net of Discounts of \$264,722 (2002 - \$49,924,000 net of discounts of \$183,938)	95,359,278	49,740,062
Principal payment on debenture debt	<u>(95,335,750)</u>	<u>(69,064,750)</u>
	<u>23,528</u>	<u>(19,324,688)</u>
Increase (Decrease) in cash	1,046,552	(456,922)
Cash Position, Beginning of Year	<u>4,544,386</u>	<u>5,001,308</u>
Cash Position, End of Year	<u>\$ 5,590,938</u>	<u>\$ 4,544,386</u>

Cash position is defined as cash and short-term investments less bank indebtedness.
See accompanying notes to the financial statements.

Notes to the Financial Statements

Year ended March 31, 2003

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980, and has a March 31 fiscal year-end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, including district school boards, and hospitals through a central borrowing authority.

1. Summary of significant accounting policies:

- (a) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.
- (b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to units. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide for funds which may be required for administrative purposes and timing differences.

2. Fair values of financial instruments:

Financial assets and financial liabilities:

The fair values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements.

The fair values of the Corporation's loans to units and debentures payable fluctuate with changes in current lending rates. The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost

of borrowing, thereby providing a hedge against equity erosion. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

3. Loans to units:

- (a) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0 per cent to 12.5 per cent. Due to existing provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.
- (b) Principal payments receivable in each of the next five years are as follows:

2004	\$ 63,054,835
2005	63,426,011
2006	63,060,693
2007	60,558,087
2008	57,145,462

4. Trust funds under administration:

Trust fund assets totalling \$25,859,653 (2002 - \$23,715,763) were paid out on May 13, 2002, that were held on behalf of certain provincial debt issued for school and hospital construction within debenture Series "AC". These funds represented sinking funds which were held by the Corporation to be applied to the repayment of outstanding debenture debt Series "AC" at maturity.

5. Debentures payable:

- (a) The debenture debt outstanding at March 31, 2003, totalling \$482,460,750 (2002 - \$482,172,500) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exception of Series "AT" which is a private placement.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
N	Apr. 2/85	2003 to 2005	12.375-12.500	\$ 2,110,000
AE	May 5/93	2003	8.500	3,900,000
AF	Nov. 18/93	2003	7.625	2,990,000
AG	July 13/94	2003 to 2004	9.250	5,450,000
AH	Dec. 8/94	2003 to 2004	9.625-9.750	9,280,000
AI *	May 2/95	2003 to 2005	9.000-9.125	8,035,000
AJ	Nov. 14/95	2003 to 2005	8.000-8.125	12,770,000
AK *	May 14/96	2003 to 2006	7.500-8.000	22,116,000
AL	Oct. 28/96	2003 to 2006	7.250-7.500	10,773,000
AM *	May 12/97	2003 to 2007	6.750-7.000	32,378,000
AN *	Oct. 17/97	2003 to 2007	5.750-6.250	25,986,000
AP *	Jan. 30/98	2004 to 2019	5.500-6.125	38,863,000
AQ	May 15/98	2003 to 2008	5.250-5.500	25,212,000
AR *	Dec. 1/98	2003 to 2008	5.250-5.625	35,966,000
AS *	May 17/99	2003 to 2009	5.000-5.375	29,968,000
AT	May 28/99	2003 to 2015	1.000	2,193,750
AU *	Dec. 22/99	2003 to 2009	6.500-6.750	31,060,000
AV *	June 1/00	2003 to 2010	6.625-6.875	21,160,000
AW *	Nov. 9/00	2003 to 2010	6.000-6.375	21,125,000
AX *	May 29/01	2003 to 2011	5.000-6.250	27,899,000
AY *	Nov. 7/01	2003 to 2011	3.625-6.000	17,602,000
AZ *	May 15/02	2003 to 2012	3.375-6.125	52,957,000
BA *	Nov. 7/02	2003 to 2017	3.250-6.000	31,667,000
BB *	Jan. 9/03	2004 to 2023	5.913	11,000,000
				<u>\$ 482,460,750</u>

* Placed directly with the Province of Nova Scotia. Interest is payable semi-annually, except for Series "AT", which is payable annually.

- (b) Principal payments due in each of the next five years are as follows:

2004	\$ 62,965,496
2005	63,381,012
2006	63,024,289
2007	60,285,723
2008	57,123,383

6. Payment of Provincial portion of surplus to Province of Nova Scotia:

In fiscal 1998-99 the Corporation transferred \$1,500,000 of the Reserve Fund to the Province of Nova Scotia. This amount represented the Province's share of the Reserve Fund. The basis for this calculation was the portion of total Nova Scotia Municipal Finance Corporation loans made since its inception that were made to schools and hospitals. In exchange for the \$1,500,000 payment, the Province recognized the remainder of the Reserve as the Municipal portion.

7. Taxes:

The Corporation is not subject to provincial or federal taxes.

8. Change in Non-cash Working Capital:

	2003	2002
Accrued interest receivable	\$ 822,241	\$ 831,273
Other receivables	367	(616)
Accounts payable	(18,906)	29,261
Accrued interest payable	(835,724)	(833,593)
	<u>\$ (32,022)</u>	<u>\$ 26,325</u>

9. Public Service Awards:

As at March 31, 2003, the Corporation has recorded a liability in the amount of \$42,573 in respect of the provincial public service award for the three employees of the Corporation. The Corporation will fund the public service awards of its employees through future budgets. At the December 6, 2002, Board of Directors' meeting, the Board passed a motion that future budgeted Public Service Award allocations would be sufficient enough to cover eligible employees in the year in which they retire.



Nova Scotia